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How work affects your Social Security checks

You don't have to retire completely to get Social Security checks. But if you expect to work, it's important to know how your earnings will affect your Social Security checks.

The basic purpose of Social Security is to provide a continuing income to workers and their families when earnings stop or are reduced because of retirement, disability, or death.

Because Social Security checks are intended to replace, in part, those lost earnings, monthly payments generally are reduced if earnings go above a certain level. The measure used to decide whether benefits must be reduced or stopped is called the "earnings test."

The earnings test applies to everyone who gets Social Security retirement checks, except those who are 70 or older. Different rules, which include medical considerations, apply to work performed by people receiving checks because of disability.

Your right to hospital and medical insurance under Medicare is not affected by your earnings.

How the earnings test operates

In general, you can receive all benefits due you for the year if your earnings do not exceed the annual exempt amount. This limit in 1986 is \$7,800 for people who are 65 to 70 and is \$5,760 for people under 65. (In 1985, the limits were \$7,320 for people 65 to 70 and \$5,400 for people under 65.)

If your earnings go over the annual amount, we will deduct \$1 from your benefits for each \$2 you earn above the exempt amount. Even if your earnings are above the exempt amount for the year some Social Security checks may still be payable. For example, if you are 65 with a monthly benefit of \$450, you could earn \$18,600 in 1986 before all benefits are withheld.

You must count your earnings for the whole year in figuring the benefits due you. For most people, this means January through December. (See page 7 for what counts as earnings.)

The year your benefits start. In figuring your total earnings for the year in which you first become entitled to benefits, count earnings for months in that year before you applied for benefits, as well as earnings in the following months.

The year benefits end. Your earnings for the entire year in which your

benefits end count in figuring the amount of benefits due you for the year.

The year you reach 70. Benefits are payable for all months in which you are 70 or older regardless of the amount of your earnings in those months or total earnings for the year. In figuring the amount of benefits payable for the months before you reach 70, count only your wages earned during the months before the day before your birthday. If you are self-employed, prorate your net earnings from self-employment to figure the amount to count for the months before you reach 70.

If you expect to earn over the annual exempt amount, you should tell Social Security promptly how much you expect to earn so some or all of your benefits can be withheld. Any benefits which were incorrectly paid may have to be repaid. If you later find that your earnings will be higher or lower than you expected, you should again tell us. You are required to file an annual report of earnings by April 15 of the following year.

Starting in 1990, \$1 in benefits will be withheld for each \$3 in earnings above the annual limit for people 65 and over. Starting in 2000, the age at which full benefits can be paid, now 65, will be gradually increased

until it reaches 67. The age at which this withholding rate applies will also increase.

Special monthly rule

There's a special rule that allows people who retire during a year to receive benefits for the remainder of the year regardless of their earnings before retirement.

Under this rule you can get a full benefit for any *month* your wages do not exceed the monthly exempt amount and you do not perform substantial services in self-employment. The monthly exempt amount in 1986 is \$650 if you're 65 or older and \$480 if you're under 65. (The 1985 amounts were \$610 for people 65 or older and \$450 for people under 65.)

The monthly test also applies in the years benefits begin and end for children or a mother or father who gets benefits because she or he has been caring for a young child.

The special monthly test can apply only for the first year you have little or no earnings for one or more months. In all other years, the amount of benefits payable to you depends on the total annual earnings.

Also, the use of the special monthly test will be different depending on whether you work as an

employee or are self-employed, as explained below.

If you work as an employee, it doesn't matter when the wages are actually paid. The controlling factor is when you *earn* the money. If you're *self-employed*, the main consideration is whether you are active in your business and performing "substantial services."

Unlike employees, who usually know how much they earn each month, self-employed people often do not know whether they will have a profit or a loss until the end of the year. The money a self-employed person receives from his or her business in a given month may vary considerably and often may be for work during some earlier month.

For these reasons, we don't use monthly earnings to decide how work affects payments for self-employed people. Self-employed people can get checks if they don't perform "substantial services."

For us to decide whether your services as a self-employed person are substantial, we look at the amount of time you devote to your business, the kind of services you perform, and how the services compare with what you did in the past.

In general, if you work more than 45 hours in a month in your business,

your services are considered substantial. If you work 45 hours or less in a month, your services generally are not considered substantial.

Even though you work 45 hours or less, your work may be considered substantial if you are involved in the management of a sizeable business or you are in a highly skilled occupation.

If you work fewer than 15 hours in a month, your services are never considered substantial regardless of the size of the business or the value of the service.

Checks for a family

If you get checks as a retired worker, total family benefits may be affected because of your earnings. This means we'll withhold not only your checks but also those payable to your family.

But if you get checks as a wife, husband, widow, widower, or other dependent or survivor, your work will affect only your own check.

What counts as earnings

In figuring your total yearly earnings, count any wages you earn from work as an employee and any net earnings from self-employment. Combine your earnings if you're employed and self-employed; deduct any net losses from self-employment. All earnings from employment and self-employ-

ment must be included even if some aren't covered by Social Security.

If you're an employee, count the gross wages you earn during the year, not just take-home pay.

If some of your wages were paid after the year ended, include them in total earnings for the year in which the work was done, not in the total for the next year.

Wages include bonuses, commissions, fees, vacation pay, pay in lieu of vacation, cash tips amounting to \$20 or more in a month from your work for one employer, and severance pay.

If you are paid partly in cash and partly in some other form, such as meals or living quarters, include both the cash and the value of the other part in figuring your total earnings. An exception to this rule is that domestic employees and farm workers count only cash wages.

Other types of payments made by an employer may be considered wages under certain conditions. If you have a question about whether a payment you get is wages, ask at any Social Security office.

If you're a self-employed person, count your net profit or loss from any enterprise in which you are sole owner or partner. Fees paid to you as

a director of a corporation count as earnings from self-employment.

What doesn't count as earnings

Generally, only income from a job or self-employment (even if the work is not covered by Social Security) counts as earnings for Social Security purposes. The following types of income don't count as earnings:

- Investment income in the form of dividends from stock you own, unless you are a dealer in securities.
- Interest on savings accounts.
- Income from Social Security benefits, pensions, other retirement pay, or Veterans Administration benefits.
- Income from annuities.
- Gain (or loss) from the sale of capital assets.
- Gifts or inheritances.
- Rental income from real estate you own, unless:
 - you are a real estate dealer, or
 - you rent out a farm and under your rental arrangement you participate materially in the production, or management of production, of farm commodities on your land.(For more information about this, ask at any Social Security office for the leaflet, *Farm rental income . . . does it count for Social Security?*)

- Royalties you receive in or after the year you become 65 from patents or copyrights that were obtained before that year.
- If you're a retired partner, retirement payments you receive from the partnership don't count if:
 - the retirement payments are to continue for life under a written agreement which provides for payments to all the partners (or to a class or classes of them), and
 - your share of the partnership capital was paid to you in full before the end of the partnership's taxable year and there is no obligation from the partnership to you except to make retirement payments.
- Income from a limited partnership. This is considered investment income rather than self-employment income.
- Income from self-employment received in a year after the year a person becomes entitled to benefits which is not attributable to services performed after the month of entitlement.

Other types of payments don't count as wages under certain conditions. These include payments from certain trust funds, payments from certain annuity plans, sick pay received after the 6th full calendar month after the employee last worked or paid after employment was terminated, loans from employers unless repaid by work, moving expenses, travel expenses, and pay for jury duty.

Special rules apply to some of the payments listed above. The people in any Social Security office will be glad to tell you if any of these payments count in your case.

Benefits may be taxable

Up to one half of your benefits may be subject to the Federal income tax for any year in which your adjusted gross income plus nontaxable interest income and one half of your Social Security benefits exceeds a base amount.

The base amount is \$25,000 for an individual, \$32,000 for a couple filing jointly, and zero for a couple who lived together any part of the year and file separate returns. For more information, contact any Social Security office and ask for the free leaflet, *Part of your benefits may be taxable*.

For more information

If you would like more information about the earnings test, contact any Social Security office. The people there will be glad to help you.

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